



MOSSADAMS

PROPRIETARY AND CONFIDENTIAL

FINAL REPORT

FOR

DOUGLAS COUNTY

Fraud, Waste, and Abuse Program

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Adopted:

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I. EXECUTIVE SUMMARY

All Douglas County (County) employees share the common purpose of serving the public and ensuring public funds are spent wisely. The work of the County should be conducted fairly, equitably, ethically, and transparently. Proactive steps must be taken to ensure community commitments and management objectives are met. It is important for employees and the public to be provided a mechanism to voice appropriate concerns when they see or feel something is not right.

As a result, Douglas County has established a Fraud, Waste, and Abuse Program that is available to all County employees and the public. The program operates 24 hours a day, 7 days a week. Reports of suspected inappropriate activity can be made using the County's toll-free number, mail, phone, or in person. All reports submitted are treated confidentially.

Douglas County employees are entrusted with public funds and have a duty to use those funds economically, efficiently, effectively, and ethically. If County employees do not honor that obligation, then it is imperative to identify and correct those actions. The County is committed to reviewing all complaints and investigating all legitimate concerns.

PURPOSE OF A FRAUD, WASTE, AND ABUSE PROGRAM

A Fraud, Waste, and Abuse (FWA) Program is a mechanism for employees or members of the public to report activities perceived to be misconduct, violations of County policy or ethics, theft, waste, or misuse of County assets. The objective of a FWA program is to identify and stop loss of County resources and act as a deterrent to fraud, waste, and abuse.

In order to facilitate reports of fraud, waste, or abuse, a FWA hotline is administered by a hotline contractor. The contractor receives calls on the FWA hotline and forwards the incident report to the County's FWA Program Coordinator. Please do not use this program to report grievable labor issues, which should be reported to the Human Resources Department. Matters of threat to a person should be reported to the County Sheriff's Office by calling 911.

BENEFITS OF A FRAUD, WASTE, AND ABUSE PROGRAM

There are numerous benefits to a FWA Program. It is important for not only identifying and quantifying losses to the County, but also preventing future losses. Specific benefits include:

- Identification and termination of occurrences of fraud, waste, and abuse.
- Recovery of funds as a result of investigations.
- Deterrence of inappropriate behavior by increasing awareness of these actions
- A safe mechanism for employees and the public to voice concerns and report suspected inappropriate activity.
- Commitment to the County's core values through the promotion of the program.
- Improvement in the County's internal control processes.
- Enforcement of an ethical work environment.



II. FRAUD, WASTE, AND ABUSE DEFINITIONS

A. FRAUD DEFINITION

Fraud is defined as a dishonest and deliberate course of action that results in obtaining money, property, or an advantage to which County employees or officials committing the action would not normally be entitled. Fraud also encompasses intentional misleading or deceitful conduct that deprives the County of its resources or rights. There are three categories of fraud. They include 1) financial statement fraud, 2) misappropriation of assets, and 3) corruption. Examples of fraud include, but are not limited to:

- Falsifying financial records to cover up theft.
- Theft or misuse of County money, equipment, supplies, and/or other materials.
- Intentionally misrepresenting the costs of goods or services provided.
- Falsifying payroll information.
- Use of County equipment or property for personal use/gain or non-business reasons.
- Submitting false vouchers for reimbursements.
- Soliciting or accepting a bribe or kickback.
- Intentional use of false weight or measures.

B. WASTE DEFINITION

Waste is defined as the needless, careless, or extravagant expenditure of County funds, incurring of unnecessary expenses, or mismanagement of County resources or property. Waste does not necessarily involve private use or personal gain, but it almost always signifies poor management decisions, practices, or controls. Examples of waste include, but are not limited to:

- Purchase of unneeded supplies or equipment outside of established limits.
- Purchase of goods at inflated prices without appropriate bids or research.

C. ABUSE DEFINITION

Abuse is defined as the intentional, wrongful, or improper use or destruction of County resources, or improper practice that does not involve prosecutable fraud. Abuse can include the excessive or improper use of an employee or official's position in a manner other than its rightful or legal use. Examples of abuse include, but are not limited to:

- Failure to report damage to County equipment or property.
- Using one's position in one County department to gain an advantage over another County resident when conducting personal business in another County department.
- Abuse of County time such as significant unauthorized time away from work or significant use of County time for personal business.
- Abusing the system of travel reimbursement.



- Receiving favors for awarding contracts to certain vendors.
- Using County property, information, or position for personal gain or resulting in extra or special charges to the County.
- Appropriating or diverting any business opportunity or idea in which the County might have an interest.
- Competing with the County in an inappropriate way.
- Failure to disclose a conflict of interest.
- Participating in decision making where a conflict of interest resides.
- Improper use of supervisory authority in response to an employee taking action or refusing to take action.

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III. FRAUD CATEGORIES

A. FINANCIAL STATEMENT FRAUD

Financial statement fraud includes intentional misstatements, omissions, or disclosures in financial statements designed to deceive financial statement users. Fraudulent financial reporting often involves upper management and management override of controls that otherwise may appear to be operating effectively. Common occurrences include overstating revenues and understating liabilities or expenses. Examples include:

- Manipulation, falsification, or alteration of accounting records or supporting documents from which financial statements are prepared, such as overstating assets and understating liabilities.
- Misrepresentation in or an intentional omission from the financial statements of events, transactions, or other significant information.
- Intentional misapplication of accounting principles relating to amounts, classification, manner of presentation, or disclosure.

B. ASSET MISAPPROPRIATION

Asset misappropriation is theft of an entity's assets that causes the financial statements not to be presented in conformity with Generally Accepted Accounting Principles. False or misleading records or documents, possibly created by circumventing controls, may accompany misappropriation of assets. Examples include:

- Embezzlement of cash where accounts have been manipulated or false invoices have been created
- Skimming revenue before the funds have been recorded in the County's financial records
- Cash larceny
- Lapping accounts receivable
- Check tampering
- Over-billing customers
- Stealing assets such as office supplies or computer equipment
- Causing the County to pay for goods and services that have not been received
- Data theft or intellectual property
- False expense claims
- Duplicate reimbursements
- Payroll fraud
- Paying personal expenses with the County's resources



C. CORRUPTION

Corruption is the wrongfully use of influence in a business transaction in order to procure some benefit and contrary to their duty to their employer or the rights of another. Examples include:

- Seeking or accepting kickbacks
- Engaging in conflicts of interest
- Bid rigging
- Contract manipulation
- Economic extortion
- Illegal gratuities
- Hiring or promotion based on personal relationship (known or unknown)

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IV. ETHICS

DOUGLAS COUNTY CODE OF ETHICS

The County follows NRS 281A, the Ethics in Government Law (the Ethics Law). The Ethics Law applies to all elected and appointed officials. The County has also adopted the *Easy Rules for Ethics*, dated February 8, 2008, which were developed by the Douglas County District Attorney's Office.

BUSINESS ETHICS

Business ethics apply to right and wrong behavior in the business world and take on different meanings in different cultures, making it challenging to truly define business ethics. However, there are a number of areas where unethical practices may occur more frequently, including human resources and accounting.

HUMAN RESOURCES ETHICS

Interactions between managers and employees create opportunities for breaches of ethics, such as discrimination based on ethnicity, gender, age, or other factors. Managers who discriminate against minority groups in hiring practices, compensation decisions, and terms of employment can face legal and social consequences. Dishonesty and manipulation are also examples of unethical workplace behavior.

ACCOUNTING ETHICS

Financial accounting is a major ethical issue, and no amount of industry or government regulation seems able to prevent dishonest people from reporting financial information in unethical ways. Certain unethical accounting practices are illegal, such as misrepresenting income or expenses in financial statements through unjustifiable shifting of expenses to inappropriate periods to influence current financial results, obtain a better debt rate, or to maintain debt covenant requirements.



V. IMPLEMENTATION

A. PLANNING

ROLES AND RESPONSIBILITIES

The FWA Program will be administered and managed as follows:

- Board of County Commissioners – requires a FWA Program.
- County Manager – sets the tone for the program, funds the program, provides messaging on the County’s intranet page promoting ethical behavior with appropriate links for reporting, reviews all recommended actions by the FWA Program Coordinator regarding how to respond to complaints, and provides recommendations to the Board of County Commissioners (but does not participate in conducting investigations).
- District Attorney – reviews reports, as necessary, to determine if there are civil matters to be addressed and takes appropriate actions.
- Sheriff – reviews reports to determine if there are criminal matters to be addressed and takes appropriate actions.
- Human Resources – receives complaints and works with management and bargaining unit representatives to take appropriate action as a result of substantiated complaints.
- Department Managers – responsible for supporting the FWA Program and cooperating with an investigation should one occur within their department.
- Risk Management – for substantiated complaints, works with management regarding insurance coverage and claims.
- County employees – responsible for reporting suspected inappropriate activity.
- FWA Program Coordinator (Moss Adams) – responsible for coordinating the FWA Program, monitoring, triaging complaints, conducting investigations, providing overall oversight as to the progress of complaints received, making reports, and performing follow-up procedures deemed appropriate.
- Designated Internal Auditor (Chief Financial Officer): responsible for managing the overall internal audit program.

TRACKING AND MONITORING OF COMPLAINTS

The County has established a case management process to capture, track, and report the following elements:

- A. Complaints received by category and sub-categories, as desired.
 - Fraud: expense reimbursements, cash, and skimming
 - Wasteful spending and abuse
 - Ethics
 - Threats: County, people, property



- B. Complaint triage and recommended action will be made by the FWA Program Coordinator. Otherwise, the FWA Program Coordinator will determine that no action is needed by the FWA Program Coordinator because:
- Information is insufficient for investigation
 - Complaint does not pertain to the County government
 - Compliant should be referred to another department
- C. Referrals will be made by the FWA Program Coordinator as deemed appropriate to the situation. Specific examples of referrals include:
- Referrals will be made to the Sheriff's department if the complaint indicates a life threatening situation or other type of crime
 - In some instances, the complaint, even if investigated by the FWA Program Coordinator, may be referred to the Nevada Commission on Ethics with concurrence from the County
 - Labor relations matters and grievances may be referred to the County's Human Resources department
 - Non-financial or compliance matters
- D. Investigations by the FWA Program Coordinator
- Determine the methodology for investigation. Procedures may include, but not be limited to, the following types of activities that specifically relate to the allegation received:
 - Interviews of individuals deemed to have direct knowledge of the matter
 - Interview with the employee(s) named in the complaint
 - Interview with the person(s) who made the complaint, if known
 - Interview with person(s) external to the County deemed to have direct knowledge of the matter at hand
 - Review of documentation supporting the transaction(s) questioned
 - Review of County policies and procedures
 - Review of Board of County Commissioners meeting minutes
 - Review of emails
 - Confirmation from third parties substantiating transactional activity such as financial institutions, investment administrators, and vendors
 - Testing of internal controls and/or transaction details
 - Electronic analysis of transactions utilizing ACL or other automated tools deemed appropriate to the situation
- E. Final disposition or conclusion by the FWA Program Coordinator
- Substantiated matters will be reported based on Generally Accepted Government Auditing Standards requirements, including the following elements:
 - Condition – what really happened
 - Criteria – what we expected to happen, including identification of laws, rules, regulations, statutes, and generally accepted accounting principles
 - Effect – financial impact to the County
 - Cause – why the condition happened, including weaknesses in internal controls or override of internal controls



- Recommendations – address changes to internal control structure, assignment of duties and responsibilities, training, disciplinary action, or referral to the District Attorney for civil or criminal action
 - o Unsubstantiated matters will be reported in a manner that protects the subject of the complaint. Elements reported may include the following:
 - Date the complaint was received
 - Period of time the FWA Program Coordinator conducted the investigation
 - Summary of actions taken to investigation the complaint
 - Conclusion regarding evidence of criminal or civil wrongdoing
 - Recommendations for improvement in internal controls or operations, if warranted
- F. Reporting. The frequency and content of FWA Program reporting will be driven by the County’s open meetings law.
- o Number of hotline reports each reporting period
 - o Nature of reports
 - o Actions taken
 - o Report recipients, as appropriate
 - Designated Internal Auditor (regularly)
 - County Manager (regularly)
 - Board of County Commissioners (periodically)
 - Others as appropriate
 - o Reporting forum
 - Open public meeting
 - Executive session discussion (nondisclosure to public), as required

B. FRAUD HOTLINE

Providing individuals with a means to report suspicious activity is a critical part of an anti-fraud program. Fraud reporting mechanisms, such as hotlines, are set up to receive tips from both internal and external sources and support anonymity and confidentiality. Management encourages employees to report suspicious activity, as well as enact and emphasize an anti-retaliation policy. According to the Association of Certified Fraud Examiners, the number one source for the initial detection of fraud is through a tip, with over 50% of tips coming from an employee.

EXTERNAL HOTLINE ANSWERING COMPANY

The County has elected to contract with a third-party vendor to administer the offsite reporting system (the Contractor). Incident reports can be submitted in a number of ways and allows employees or members of the public to call and speak to an operator via a designated phone number staffed by the vendor. There are distinct benefits to managing the hotline in this manner. Examples include:

- Services are available 24 hours a day/7 days a week/365 days a year.
- The persons receiving the calls are hotline professionals, trained in how to obtain the information necessary for the County to determine an appropriate course of action.



- The Contractor has the ability to receive documents (Word, Excel, and PDF) and forward them to the County as evidence for the complaint, while maintaining the privacy of the caller.
- The Contractor has the ability to communicate back and forth with the caller without revealing the identity of the caller.
- The Contractor will provide notification of the incident and the incident report to the County's FWA Program Coordinator.
- The Contractor will provide case management of calls received, including archiving and data retention.

C. METHODS FOR CAPTURING COMPLAINTS

The County is providing employees and members of the public a variety of methods for reporting suspected inappropriate activity and behavior. These methods include:

- Hotline (anonymous reporting mechanism, internal vs. external) – all incident reports are forwarded to the County's FWA Program Coordinator.
- Phone call – if received by the County's FWA Program Coordinator, the caller will be encouraged to call the FWA hotline, or the County's FWA Program Coordinator will handle the call by obtaining the information required to determine if an investigation is necessary. If a call is received by County personnel, then the incident/complaint will be forward to the FWA hotline or County's FWA Program Coordinator.
- Face-to-face – County personnel will take appropriate notes of the meeting and encourage the complainant to report the matter through the FWA hotline.
- Mail – mail will be forwarded to the County's FWA Program Coordinator for investigation, as appropriate.

D. PROGRAM REVIEW

The Board of County Commissioners will periodically, at least annually, review the program to validate that the FWA Program is meeting Board of County Commissioners and management objectives and providing useful information. The review will include confirmation of individual roles and responsibilities, policies and procedures, and the results of investigations. Statistical information will also be reported, such as the following:

- Number of complaints received
 - Referred – non-County, information requests, etc.
 - Under investigation
 - Open – pending additional information
 - Closed
- Sources of complaints
 - Hotline
 - Online
 - Phone
 - Face-to-face



- Mail
- Other
- Types of complaints
 - Non-County issues
 - Referral to other department
 - FWA Program Coordinator investigation for fraud, waste, or abuse
 - Other
- Cases closed and reason for closing
 - Investigated – substantiated
 - Investigated – not substantiated
 - Referred
 - Insufficient information – no action taken
- Case Highlights – Investigations conducted – loss substantiated
 - Identified loss and impact to the County
 - GAGAS finding elements – condition, criteria, effect, cause
 - Recommendations in internal controls
- Program Implementation Status – Implementation of recommendations resulting from an investigation may take 2-3 years.
 - Summary of recommendations
 - Management’s response
 - Actions taken to date
 - Estimation from management of when implementation will be completed

E. COMMUNICATION PLAN

The County launched the FWA Program in December 2017. The program incorporates the County’s *Easy Rules for Ethics* and an appropriate tone at the top.

Consideration is also being given to the following:

- Intranet page link to reporting options for employees and the public
- Whistleblower protection/Nevada law
- Plan for ongoing support and communication about the program
- Message on payroll stubs
- Posters
- Newsletters
- New hire training
- Annual training



F. REACTING TO COMPLAINTS

Regardless of the mechanism through which the County receives a complaint, the following procedures are established for triaging complaints, performing investigations, and communicating investigation results.

TRIAGE ESCALATION

The County has established escalation for complaints as follows:

- Immediate response – call indicates misappropriation of the County’s assets, false reporting, misuse of County assets, etc.
- Referral – based on the circumstances of the complaint, reports may be referred to other departments or outside the County. In such instances, the caller will be notified of the referral if the caller requests. The call can be closed upon referral but should be reported as such, or it may remain open until the final resolution is communicated to the County. Matters indicating a personal emergency will be forwarded to the appropriate party for action (for example, a life threatening situation or child abuse).
- Annual audit plan – call indicates the need for a process redesign or modification to internal controls but no financial loss to the County.
- Follow-up – call requires additional information before appropriate action can be determined.
- Closed as received – including but not limited to:
 - Call is incomplete
 - Caller did not provide sufficient information to determine the appropriate action and caller has not elected for two-way anonymous communication
 - Matters regarding non-audit issues (i.e., request for the number of a local dump)

INVESTIGATING COMPLAINTS

The complaint will be forwarded to the appropriate party for investigation. If the County’s FWA Program Coordinator investigates, then the following activities will be performed:

- Read the initial hotline report.
- Obtain any supporting documents provided by the caller through the Contractor.
- Identify additional evidence needed to resolve the complaint, including but not limited to:
 - County policies and procedures
 - Copy of or access to Board meeting minutes
 - Copies of invoices, receipts, contracts, etc.
 - Other documentation deemed necessary to determine validity of the incident report
- Identify who will be contacted during the investigation, including but not limited to:
 - Suspect to the allegation
 - Victim(s)
 - Witnesses
 - Complainant, if known and the individual wishes to be interviewed



- Those who are part of the internal control process, but who may not have knowledge of the specific complaint
- Law enforcement, if appropriate
- Nevada Commission on Ethics to request a written “Request for Opinion” regarding a public employee’s or public officer’s conduct in relation to NRS 281A based on information received through the hotline
- Others as determined necessary
- Communicate to the complainant appropriate information regarding the County’s whistleblower policy.
- Perform investigative procedures to determine the validity of the complaint and documenting:
 - Steps taken
 - Evidence gathered – chain of custody
 - Conclusions reached
 - Quantification of financial loss to the County, if any
 - GAGAS – criteria, condition, cause, effect, and recommendations, as appropriate
- Keep the appropriate parties informed of the progress of the investigation.
- Communicate the final results of the investigation, including notification and reporting, as appropriate, including, but not limited to Board of County Commissioners, County Manager, County management, and Nevada Commission on Ethics.
- Manage information on a need-to-know basis.
- Maintain case files for an appropriate period. This may be driven by whether or not the case results in civil or criminal charges.

COMMUNICATION

Within the escalation process, the County has created a reporting structure. The County will continue to modify that structure as appropriate. The current structure includes reporting to the following:

- District Attorney’s office – potential civil activity
- Sheriff – potential criminal activity
- Human Resources Department – employee disciplinary action
- County Manager – consideration of audits performed and status of investigations (care will be taken to ensure the detail provided does not violate privacy laws)
- Board of County Commissioners – periodic reporting of activity
 - Statistics of calls received
 - Summaries of completed investigations, as appropriate and dependent upon whether there will be civil or criminal charges filed



VI. WHISTLEBLOWER PROTECTION/POLICY

The risk and fear of retribution can deter many people from reporting allegations of wrongdoing against a colleague, manager, Board member, or a County vendor. The public policy of the State is to encourage state and local officers and employees to disclose improper governmental action and protect the rights of persons making such disclosures (NRS 281.621).

The State's Fraud policy includes "Whistle-Blower Protection" and prohibits retribution against any employee who may have made a report of suspected inappropriate activity. The County will take each call seriously and investigate as the issue warrants and evidence is available. The County has made available an anonymous reporting mechanism to facilitate this process.

Nevada whistle-blower statutes define "improper governmental action" as actions taken in the performance of official duties, whether or not the action is within the scope of employment, that are:

- In violation of State law or regulation;
- For local government officers and employees, in violation of local ordinances;
- In abuse of authority;
- A substantial and specific danger to public health or safety; or
- A gross waste of money.

If an individual makes a report through the FWA hotline, then the FWA Program Coordinator will not make any effort to identify the complainant. If the individual wishes to be contact by the FWA Program Coordinator, then the individual should leave contact information at the time of the FWA hotline call. The FWA Program Coordinator will not reveal the identity of the individual(s) unless required to do so by law.



VII. TRAINING

The County is providing initial and ongoing training to all County employees on the FWA Program.

INITIAL TRAINING

Initial training includes discussion of the following:

- Program purpose and benefits
- Roles and responsibilities
- Employee responsibilities for reporting suspected inappropriate activity
- How to make a report using all various methods (hotline, web, or face-to-face)
- Investigation considerations
- Reporting of investigation results – public vs. private information.

ONGOING TRAINING

Ongoing training is important to reinforce management's commitment to reducing loss of resources to the County. The training can be part of the County's annual training program or specific to a Department. A fraud, waste, and abuse training webinar will be accessible by all employees via the Moss Adams YouTube channel.

FRAUD AWARENESS TRAINING AND TRAIN THE TRAINER

In order for County employees to understand when and what to report, employees need to receive fraud awareness training. Consideration should be given to which employees should receive training (managers, directors, supervisors, line employees, etc.). Training should include the following topics:

- Definition of fraud, waste, and abuse with examples of each
- Fraud triangle, fraud environment, and why fraud happens
- Opportunity points for fraud to occur
- Internal controls intended to prevent and detect fraud
- The importance of corrective controls and the message it sends to employees
- Fraud schemes – what does fraud look like, how to identify and understand various schemes
- Characteristics and red flags of perpetrators

